BEFORE THE
TENNESSEE STATE BOARD OF EQUALIZATION

In Re:	*Hampton Ridge LP* District 9, Map 75, Control Map 75, Parcel 44.02 Tax year 2000 *Great Atlantic Management Company* District 9, Map 75, Control Map 75, Parcel 44.02 Tax years 2001, 2002, 2003, 2004, 2005, 2006	))))))	Maury County

PROPOSED DECISION AND ORDER

Statement of the Case

The Maury County Board of Equalization has valued the subject property for tax purposes as follows:

Tax Years 2000 and 2001:

LAND VALUE	IMPROVEMENT VALUE	TOTAL VALUE	ASSESSMENT
		$6,473,200	$2,589,280

Tax Years 2002—2005:

LAND VALUE	IMPROVEMENT VALUE	TOTAL VALUE	ASSESSMENT
$313,000	$6,137,100	$6,450,100	$2,580,040

Tax Year 2006:

LAND VALUE	IMPROVEMENT VALUE	TOTAL VALUE	ASSESSMENT
		$7,000,300	$2,800,120

Appeals have been filed on behalf of the property owner with the State Board of Equalization ("State Board").

The undersigned administrative judge conducted a hearing of this matter on July 19, 2007 in Nashville.[1] The appellant, Hampton Ridge, L.P., was represented by registered agent Patrick H. Musgrave, of Evans & Petree, PC (Memphis). Maury County Deputy Property Assessor Bobby Daniels was assisted by Robert T. Lee, attorney for the State Division of Property Assessments (DPA), and George C. Hoch, TMA, a member of DPA's staff.

Proposed Decision

These longstanding appeals involve a Low Income Housing Tax Credit (LIHTC) apartment complex which is located near a competing LIHTC property (Cedar Pointe Apartments) in the city of Columbia. Called by the taxpayer's agent a "disaster" that "should

[1]The parties filed post-hearing memoranda on or before the August 1, 2007 due date.

have never been built," the Hampton Ridge Apartments were completed in 1998. According to the owner's "restated audited operations summary," it was not until 2006 that this property achieved a positive cash flow (after payment of debt service).[2] The vacancy and collection loss in that year still approximated 10%.

As Mr. Hoch was quick to point out, the $3,900,000 mortgage (at an 8.22% interest rate) and the $3,541,494 ($0.64/$1.00) proceeds from the assignment of the allocated tax credits funded most of the cost of developing this 140-unit project. In his view, the Hampton Ridge Apartments represented a "prime example" of why LIHTC properties should be valued by a discounted cash flow (DCF). But Mr. Hoch's DCF analysis was tainted by resort to post-assessment date surveys (for internal rates of return and terminal capitalization rates) and incorporation of actual (post-assessment date) income and expense data into his "projected" cash flows from 2000 through 2007. Further, while his proposed discount rate for the tax credit receipts gradually *increased* from 4.28% (for tax year 2000) to 9.56% (for tax year 2006), he discounted the rental portion of the income stream at the same 7.50% rate for all seven tax years in dispute.

On much the same rationale articulated in Acorn Hills LP/Brisben (Marshall County, Tax Years 2003 and 2004, Initial Decision and Order, October 29, 2007), the administrative judge finds that the subject property should be valued in accordance with the following modifications to DPA's DCF Spreadsheets:

Tax Year 2000 (Assessor/DPA Hearing Exhibit, pp. 68-69):

> Potential gross (restricted) rental income: $905,280 in year 1; 1.50% annual escalation thereafter
> Vacancy and collection loss: 50% of potential gross income in year 1; 35% of potential gross income in years 2 and 3; 20% of potential gross income thereafter
> Total expenses: $507,100 in year 1; 3.00% annual escalation thereafter
> Discount rates: 13.00% for NOI excluding tax credits; 10.50% for tax credits
> Years of tax credits remaining: 9
> Terminal capitalization rate: 11.20%
> Reversionary value: based on capitalization of rent-restricted NOI at end of holding period (less selling expenses)

Tax Year 2001 (Assessor/DPA Hearing Exhibit, pp. 72-73):

> Potential gross (restricted) rental income: $876,960 in year 1; 1.50% annual escalation thereafter
> Vacancy and collection loss: 50% of potential gross income in year 1; 35% of potential gross income in years 2 and 3; 20% of potential gross income thereafter
> Total expenses: $520,700 in year 1; 3.00% annual escalation thereafter
> Discount rates: 11.80% for NOI excluding tax credits; 10.00% for tax credits
> Years of tax credits remaining: 8
> Terminal capitalization rate: 11.20%

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[2]The property owner's bottom line in the preceding years was adversely affected by rent concessions and, to a lesser extent, bad debt. To offset operating losses, the general partner has made nearly $4 million in "special contributions" to date.

Reversionary value: based on capitalization of rent-restricted NOI at end of holding period (less selling expenses)

Tax Year 2002 (Assessor/DPA Hearing Exhibit, pp. 76-77):

Potential gross (restricted) rental income: $911,040 in year 1; 1.50% annual escalation thereafter
Vacancy and collection loss: 35% of potential gross income in year 1; 25% of potential gross income in years 2 and 3; 20% of potential gross income thereafter
Total expenses: $590,000 in year 1; 3.00% annual escalation thereafter
Discount rates: 12.20% for NOI excluding tax credits; 10.00% for tax credits
Years of tax credits remaining: 7
Terminal capitalization rate: 10.80%
Reversionary value: based on capitalization of rent-restricted NOI at end of holding period (less selling expenses)

Tax Year 2003 (Assessor/DPA Hearing Exhibit, pp. 80-81):

Potential gross (restricted) rental income: $944,160 in year 1; 1.50% annual escalation thereafter
Vacancy and collection loss: 30% of potential gross income in year 1; 20% of potential gross income thereafter
Total expenses: $597,000 in year 1; 3.00% annual escalation thereafter
Discount rates: 12.20% for NOI excluding tax credits; 10.00% for tax credits
Years of tax credits remaining: 6
Terminal capitalization rate: 10.60%
Reversionary value: based on capitalization of rent-restricted NOI at end of holding period (less selling expenses)

Tax Year 2004 (Assessor/DPA Hearing Exhibit, pp. 83-84):

Potential gross (restricted) rental income: $961,440 in year 1; 1.50% annual escalation thereafter
Vacancy and collection loss: 30% of potential gross income in year 1; 20% of potential gross income thereafter
Total expenses: $603,800 in year 1; 3.00% annual escalation thereafter
Discount rates: 11.30% for NOI excluding tax credits; 10.00% for tax credits
Years of tax credits remaining: 5
Terminal capitalization rate: 10.20%
Reversionary value: based on capitalization of rent-restricted NOI at end of holding period (less selling expenses)

Tax Year 2005 (Assessor/DPA Hearing Exhibit, pp. 86-87):

Potential gross (restricted) rental income: $961,440 in year 1; 1.50% annual escalation thereafter
Vacancy and collection loss: 30% of potential gross income in year 1; 20% of potential gross income thereafter
Total expenses: $598,000 in year 1; 3.00% annual escalation thereafter
Discount rates: 11.50% for NOI excluding tax credits; 10.00% for tax credits
Years of tax credits remaining: 4
Terminal capitalization rate: 10.00%
Reversionary value: based on capitalization of rent-restricted NOI at end of holding period (less selling expenses)

Tax Year 2006 (Assessor/DPA Hearing Exhibit, pp. 89-90):

Potential gross (restricted) rental income: $964,800 in year 1; 1.50% annual escalation thereafter
Vacancy and collection loss: 25% of potential gross income in year 1; 15% of potential gross income thereafter
Total expenses: $633,000 in year 1; 3.00% annual escalation thereafter

Discount rates: 10.90% for NOI excluding tax credits; 9.50% for tax credits
Years of tax credits remaining: 3
Terminal capitalization rate: 9.70%
Reversionary value: based on capitalization of rent-restricted NOI at end of holding period (less selling expenses)

Order

Within ten (10) days from the date of entry hereof, the Assessor and/or DPA shall submit for the record revised DCF spreadsheets reflecting adjusted values for the subject property consistent with the above findings. It is further ORDERED that the following values be adopted for the tax years under appeal:

Tax Year 2000: Assessor/DPA adjusted DCF value, equalized by application of the overall appraisal ratio certified by the State Board for Maury County (.9163), less $39,059 (appraised value of tangible personal property).

Tax Year 2001: Assessor/DPA adjusted DCF value, equalized by application of the overall appraisal ratio certified by the State Board for Maury County (.9163), less $48,824 (appraised value of tangible personal property).

Tax Year 2002: Assessor/DPA adjusted DCF value, less $19,206 (appraised value of tangible personal property).

Tax Year 2003: Assessor/DPA adjusted DCF value, less $14,465 (appraised value of tangible personal property).

Tax Year 2004: Assessor/DPA adjusted DCF value, equalized by application of the overall appraisal ratio certified by the State Board for Maury County (.9580), less $12,658 (appraised value of tangible personal property).

Tax Year 2005: Assessor/DPA adjusted DCF value, equalized by application of the overall appraisal ratio certified by the State Board for Maury County (.9580), less $14,716 (appraised value of tangible personal property).

Tax Year 2006: Assessor/DPA adjusted DCF value, less $13,019 (appraised value of tangible personal property).

Pursuant to the Uniform Administrative Procedures Act, Tenn. Code Ann. §§ 4-5-301—325, Tenn. Code Ann. § 67-5-1501, and the Rules of Contested Case Procedure of the State Board of Equalization, the parties are advised of the following remedies:

1. A party may appeal this decision and order to the Assessment Appeals Commission pursuant to Tenn. Code Ann. § 67-5-1501 and Rule 0600-1-.12 of the Contested Case Procedures of the State Board of Equalization. Tennessee Code Annotated § 67-5-1501(c) provides that an appeal **"must be filed within thirty (30) days from the date the initial decision is sent."** Rule 0600-1-.12 of

the Contested Case Procedures of the State Board of Equalization provides that the appeal be filed with the Executive Secretary of the State Board and that the appeal **"identify the allegedly erroneous finding(s) of fact and/or conclusion(s) of law in the initial order"**; or

2. A party may petition for reconsideration of this decision and order pursuant to Tenn. Code Ann. § 4-5-317 within fifteen (15) days of the entry of the order. The petition for reconsideration must state the specific grounds upon which relief is requested. The filing of a petition for reconsideration is not a prerequisite for seeking administrative or judicial review.

This order does not become final until an official certificate is issued by the Assessment Appeals Commission. Official certificates are normally issued seventy-five (75) days after the entry of the initial decision and order if no party has appealed.

ENTERED this 29th day of October, 2007.

Pete Loesch

PETE LOESCH
ADMINISTRATIVE JUDGE
TENNESSEE DEPARTMENT OF STATE
ADMINISTRATIVE PROCEDURES DIVISION

cc: Patrick H. Musgrave, Evans & Petree, PC
Robert T. Lee, General Counsel, Comptroller of the Treasury
Jimmy R. Dooley, Maury County Assessor of Property

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